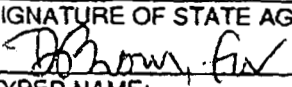
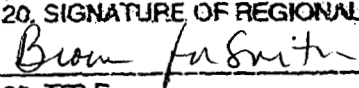


TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL FOR: HEALTH CARE FINANCING ADMINISTRATION		1. TRANSMITTAL NUMBER: <u>0 2 - 0 2 3</u>	2. STATE: MA
		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR HEALTH CARE FINANCING ADMINISTRATION DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE October 1, 2002	
5. TYPE OF PLAN MATERIAL (Check One): <input type="checkbox"/> NEW STATE PLAN <input type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input checked="" type="checkbox"/> AMENDMENT			
COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)			
6. FEDERAL STATUTE/REGULATION CITATION: 2 USC 1396r-4; 42 USC 1369a(a)(13), 42 CFR 447		7. FEDERAL BUDGET IMPACT: a. FFY 2003 \$ 7M b. FFY _____ \$ _____	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT: Attachment 4.19-A(1), pp. 1-35, List of Exhibits new Exhibit 10, and deletion of Exhibits 3a and 8		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable): Same	
10. SUBJECT OF AMENDMENT: Methods Used to Determine Rates of Payment for Acute Inpatient Hospital Services			
11. GOVERNOR'S REVIEW (Check One): <input type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input checked="" type="checkbox"/> OTHER, AS SPECIFIED: <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED Not required under 42 CMR 430.12(b)(12)(ii) <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL: 		16. RETURN TO: Laura Watson State Plan Coordinator Office of the General Counsel Division of Medical Assistance 600 Washington Street Boston, MA 02111	
13. TYPED NAME: Wendy E. Warring			
14. TITLE: Commissioner			
15. DATE SUBMITTED:			
FOR REGIONAL OFFICE USE ONLY			
17. DATE RECEIVED: 12/30/02		18. DATE APPROVED: 3/7/03	
PLAN APPROVED - ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: 10/1/02		20. SIGNATURE OF REGIONAL OFFICIAL: 	
21. TYPED NAME: CHARLENE BROWN		22. TITLE: Deputy Director, CMSO	
23. REMARKS:			

State Plan Under Title XIX of the Social Security Act
State: Massachusetts
Institutional Reimbursement

**Methods Used to Determine Rates of Payment for
Acute Inpatient Hospital Services**

I. Overview

On August 8, 2002, the Division of Medical Assistance of the Executive Office of Health and Human Services (hereafter referred to as "the Division") issued a Request for Application (RFA) to solicit applications from eligible, in-state Acute Hospitals that seek to participate as MassHealth providers of Acute Hospital services. The goal of the RFA was to enter into contracts with all eligible Acute Hospitals in Massachusetts that accept the method of reimbursement set forth below as payment in full for providing MassHealth Members with the same level of clinical services as is currently provided by those Hospitals and their Hospital-Licensed Health Centers. In-state Acute Hospitals that: (1) operate under a Hospital license issued by the Massachusetts Department of Public Health (DPH); (2) participate in the Medicare program; (3) have more than fifty percent (50%) of their beds licensed as medical/surgical, intensive care, coronary care, burn, pediatric (Level I or II), pediatric intensive care (Level III), maternal (obstetrics) or neonatal intensive care beds (Level III), as determined by DPH; and (4) currently utilize more than fifty percent (50%) of their beds as such, as determined by the Division, are eligible to apply for a contract pursuant to the RFA.

The RFA, is effective October 1, 2002 with the following data source and inflation updates. Other methodological changes are contained within.

- Operating and capital cost data was taken from the Division of Health Care Finance and Policy (DHCFP) 403 cost reports submitted for 1998, as screened and updated as of September 15, 2000.
- An inflation adjustment of 2.226% was applied to inpatient operating costs; the adjustment is a blend of the Centers for Medicare and Medicaid Services (CMS) market basket and the Massachusetts Consumer Price Index.
- An inflation adjustment for capital costs of 0.7% has been incorporated for RY03 using the CMS capital update factor.
- The casemix index for RY03 has been calculated based on audited, date-of-service discharge data submitted to DHCFP by the Hospital, for the period October 1, 2000, through September 30, 2001, using version 12.0 of the New York Grouper, which was then matched with MassHealth SPAD and transfer claims for the same period to ensure that only MassHealth claims were included in the final casemix index calculations.

An inflation adjustment for inpatient operating costs for RY03 of 2.226% has been incorporated; the adjustment is a blend of CMS market basket and the Massachusetts Consumer Price Index (CPI).

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An inflation adjustment for inpatient operating costs for RY03 of 2.226% has been incorporated; the adjustment is a blend of CMS market basket and the Massachusetts Consumer Price Index (CPI).

- The wage area adjustment was derived from the CMS Hospital Wage Index Public Use File (FY97 Final, updated as of May 12, 2001).
- Cost data for malpractice, organ acquisition, and direct medical education expenses for the FY03 rates were derived from the DHCFP 403 cost reports submitted to DHCFP for RY 2001, as screened and updated as of July 22, 2002.
- The RY03 RFA incorporates the provisions of the new Hospital-Licensed Health Care Dental Enhancement Fees of the HLHC Dental Partnering Project.

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II. Definitions

Administrative Day (AD) - A day of inpatient hospitalization on which a Member's care needs can be provided in a setting other than an Acute Hospital, and on which the Member is clinically ready for discharge, but an appropriate institutional or non-institutional setting is not readily available. See 130 CMR 415.415 and 415.416 attached as **Exhibit 1**.

Administrative Day Per Diem - An all-inclusive per diem payable to Hospitals for administrative days.

Behavioral Health Program (BHP) - A managed care program for the provision of mental health and substance abuse services to MassHealth Members enrolled in the program.

Behavioral Health (BH) Contractor - The entity with which the Division contracts to administer the Division's Behavioral Health Program.

Community-Based Entity - Any entity that is not a Hospital-Based Entity.

Community-Based Physician - Any physician, excluding interns, residents, fellows and house officers, who is not a Hospital-Based Physician. For purposes of this definition and related provisions, the term physician includes dentists, podiatrists and osteopaths.

Contract (Hospital Contract or Agreement) - The agreement executed between each selected Hospital and the Division, which incorporates all of the provisions of the RFA.

Contractor - Each Hospital that is selected by the Division after submitting a satisfactory application in response to the RFA and that enters into a contract with the Division to meet the purposes specified in the RFA.

Disabled Members - Members of the MassHealth program who are eligible under Supplemental Security Income (SSI) and MassHealth Disability Assistance.

Distinct Part Psychiatric Unit (DPU) - An Acute Hospital's psychiatric unit that meets all requirements of 42 C.F.R. Part 412.

Division - The Commonwealth of Massachusetts, Executive Office of Health and Human Services, Division of Medical Assistance.

Division of Health Care Finance and Policy (DHCFP) - a Division of the Commonwealth of Massachusetts, Executive Office of Health and Human Services created pursuant to G.L. c.118G. DHCFP performs many of the functions performed by the former Rate Setting Commission and former Division of Medical Security.

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Emergency Aid to the Elderly, Disabled and Children (EAEDC) – The program operated by the Department of Transitional Assistance, pursuant to M.G.L. c. 117A, that furnishes and pays for limited medical services to entitled persons.

Essential MassHealth Hospital – A Hospital that meets the qualifications set forth in **Section IV.C.5**.

Excluded Units – Non-Acute Units as defined in this section; Psychiatric and Substance Abuse units; and Non-distinct Observation Units.

Gross Patient Service Revenue - The total dollar amount of a Hospital's charges for services rendered in a fiscal year.

Hospital (also referred to as **Acute Hospital**) - Any Hospital licensed under M.G.L. c. 111, § 51, and which meets the eligibility criteria set forth in **Section I**.

Hospital-Based Entity - Any entity that contracts with a Hospital to provide medical services to Members on the same site as the Hospital's inpatient facility or Hospital-Licensed Health Center, for the Hospital's inpatient department, Outpatient Department, Emergency Department or Hospital-Licensed Health Center.

Hospital-Based Physician - Any physician, excluding interns, residents, fellows, and house officers, who contracts with a Hospital or Hospital-Based Entity to provide services to Members, on the same site as the Hospital's inpatient facility or Hospital-Licensed Health Center, for the Hospital's inpatient department, Outpatient Department, Emergency Department or Hospital-Licensed Health Center. For purposes of this definition and related provisions, the term physician includes dentists, podiatrists and osteopaths. Nurse practitioners, nurse midwives and physician assistants are not Hospital-Based Physicians.

Hospital-Specific Standard Payment Amount per Discharge (SPAD) - An all-inclusive payment for the first twenty cumulative acute days of an inpatient hospitalization, which is complete reimbursement for an acute episode of illness, excluding the additional payment of Outliers, Transfer per Diems, and Administratively Necessary Days.

Inpatient Admission – The admission of a Member to an Acute Hospital for the purposes of receiving inpatient services in that Hospital.

Inpatient Services - Medical services provided to a Member admitted to an Acute Hospital. 130 CMR 415.414, the regulations referenced therein, Appendix F to the Division's Acute Inpatient Hospital Manual, the Division's billing instructions, and the RFA contain payment rules regarding Inpatient Services. See **Exhibit 2**.

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Managed Care Organization (MCO) - Any entity with which the Division contracts to provide primary care and certain other medical services to members on a capitated basis, including an entity that is approved by the Massachusetts Division of Insurance as a health maintenance organization (HMO) or that otherwise meets the state plan definition of an HMO.

MassHealth (also referred to as **Medicaid**) - The Medical Assistance Program administered by the Division to furnish and pay for medical services pursuant to M.G.L. c. 118E and Titles XIX and XXI of the Social Security Act, and any approved waivers of such provisions.

MassHealth Critical Access Hospital - A Hospital that meets the qualifications set forth in Section IV.C.6., and which has been so designated by the Division.

Member - A person determined by the Division to be eligible for medical assistance under the MassHealth program.

Non-Acute Unit - A Chronic Care, Rehabilitation or Skilled Nursing Facility within a Hospital.

Outlier Day - Each day beyond twenty acute days during a single admission, for which a Member remains hospitalized at an acute status, other than in a Distinct Part Psychiatric Unit.

Pass-Through Costs - Organ acquisition, malpractice, and direct medical education costs that are paid on a cost-reimbursement basis and are added to the Hospital-specific standard payment amount per discharge.

Pediatric Specialty Hospital - An Acute Hospital which limits admissions primarily to children and which qualifies as exempt from the Medicare prospective payment system regulations.

Pediatric Specialty Unit - A pediatric unit in an Acute Hospital in which the ratio of licensed pediatric beds to total licensed Hospital beds as of July 1, 1994, exceeded 0.20, unless located in a facility already designated as a Specialty Hospital.

Primary Care Clinician Plan (PCC Plan) - A comprehensive managed care plan, administered by the Division, through which enrolled Members receive Primary Care and certain other medical services.

Public Service Hospital - Any public Acute Hospital or any Acute Hospital operating pursuant to Chapter 147 of the Acts & Resolves of 1995 (see attached **Exhibit 3**) which has a private sector payer mix that constitutes less than twenty five percent (25%) of its gross patient service revenue (GPSR) and where uncompensated care comprises more than twenty percent (20%) of its GPSR.

Rate Year (RY) - Generally, the period beginning October 1 and ending September 30. RY03 begins on October 1, 2002 and ends on September 30, 2003.

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Sole Community Hospital - Any Acute Hospital classified as a sole community Hospital by CMS's Medicare regulations, or any Hospital which demonstrates to the Division of Health Care Finance and Policy's satisfaction that it is located more than 25 miles from other Acute Hospitals in the Commonwealth and that it provides services for at least sixty percent (60%) of its primary service area; or any such Hospital as otherwise defined in M.G.L. c. 118G.

Specialty Hospital - Any Acute Hospital which limits admissions to children or to patients under active diagnosis and treatment of eyes, ears, nose, and throat; or diagnosis and treatment of cancer; and which qualifies as exempt from the Medicare prospective payment system regulations.

Transfer Patient - Any patient who meets any of the following criteria: 1) transferred between Acute Hospitals; 2) transferred between a Distinct Part Psychiatric Unit and a medical/surgical unit in an Acute Hospital; 3) receiving substance abuse or psychiatric-related services whose assignment in the BHP changes; 4) who becomes eligible for MassHealth after the date of admission and prior to the date of discharge; or 5) is a Member who exhausts other insurance benefits after the date of admission and prior to the date of discharge.

Upper Payment Limit - The level below which it is determined that the Hospital reimbursement methodology will result in payments for Hospital services that are no more than the amount that would be paid under reimbursement rules set forth in 42 CFR, Part 447.272.

Urgent Care - Medical services that (1) are not Primary Care, and (2) are needed to treat a medical condition that is not an Emergency Medical Condition.

Usual and Customary Charges - Routine fees that Hospitals charge for Acute Hospital services rendered to patients regardless of payer source.

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III. Non-Covered Services and Program Initiatives

A. Non-Covered Services

The Division will reimburse MassHealth participating Hospitals at the rates established in the RFA and accompanying contract for all Acute Services provided to MassHealth Members except for the following:

1. Behavioral Health Services for Members Assigned to the BHP

The Division's BH Contractor contracts with a provider network to deliver psychiatric and substance abuse services for MassHealth Members enrolled in the BHP. Hospitals in the BHP network are paid by the BH Contractor for services to Members assigned to the BHP, pursuant to contracts between the BH Contractor and each contracting Hospital.

Hospitals that are not in the BH Contractor's network (hereinafter "Non-Network Hospitals") do not qualify for Medicaid reimbursement for BHP Members seeking psychiatric or substance abuse non-Emergency Services, except in accordance with a service specific agreement with the BH Contractor.

Non-Network Hospitals that provide medically necessary psychiatric and substance abuse Emergency Services to BHP Members qualify for reimbursement solely by the BH Contractor.

Hospitals are not entitled to any reimbursement from the Division, and may not claim such reimbursement for any services that are BHP-covered services or are otherwise reimbursable by the BH Contractor.

2. MCO Services

Hospitals providing services to MassHealth Members enrolled in MCOs will be reimbursed by the MCO for those services.

Hospitals may not bill the Division, and the Division will not reimburse Hospitals for services provided to MassHealth Members enrolled in an MCO where such services are covered by the MCO's contract with the Division. Furthermore, Hospitals may not "balance bill" the Division for any services covered by the MCO's contract with the Division. MCO reimbursement shall be considered payment in full for any MCO-covered services provided to MassHealth Members enrolled in an MCO.

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3. Air Ambulance Services

In order to receive reimbursement for air ambulance services, providers must have a separate contract with the Division for such services.

4. Non-Acute Units in Acute Hospitals

Except as otherwise provided in **Section IV.B.13**, the Division shall not reimburse Acute Hospitals through the RFA for services provided to Members in Non-Acute Units within Acute Hospitals.

B. Program Initiatives

1. Hospital Services Reimbursed through Other Contracts or Regulations

The Commonwealth may institute special program initiatives other than those listed above which provide, through contract and/or regulation, alternative reimbursement methodologies for Hospital services or certain Hospital services. In such cases, payment for such services is made pursuant to the contract and/or regulations governing the special program initiative, and not through the RFA and resulting Contract.

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2. Demonstration Projects

It is a Division priority to ensure that MassHealth Members receive quality medical care at sites of service that promote delivery of such medical care in a cost-effective and efficient manner. In furtherance of this objective, and subject to state and federal approval requirements, if any, the Division may, through separate contracts or through the RFA, institute demonstration projects with Hospitals to develop innovative approaches to encourage site-appropriate delivery of services. Such demonstration projects will be designed to focus on ensuring that Hospitals provide or facilitate the provision of quality services to MassHealth Members in a manner that is efficient and cost-effective and that may include alternative reimbursement methodologies for Hospital services or certain Hospital services.